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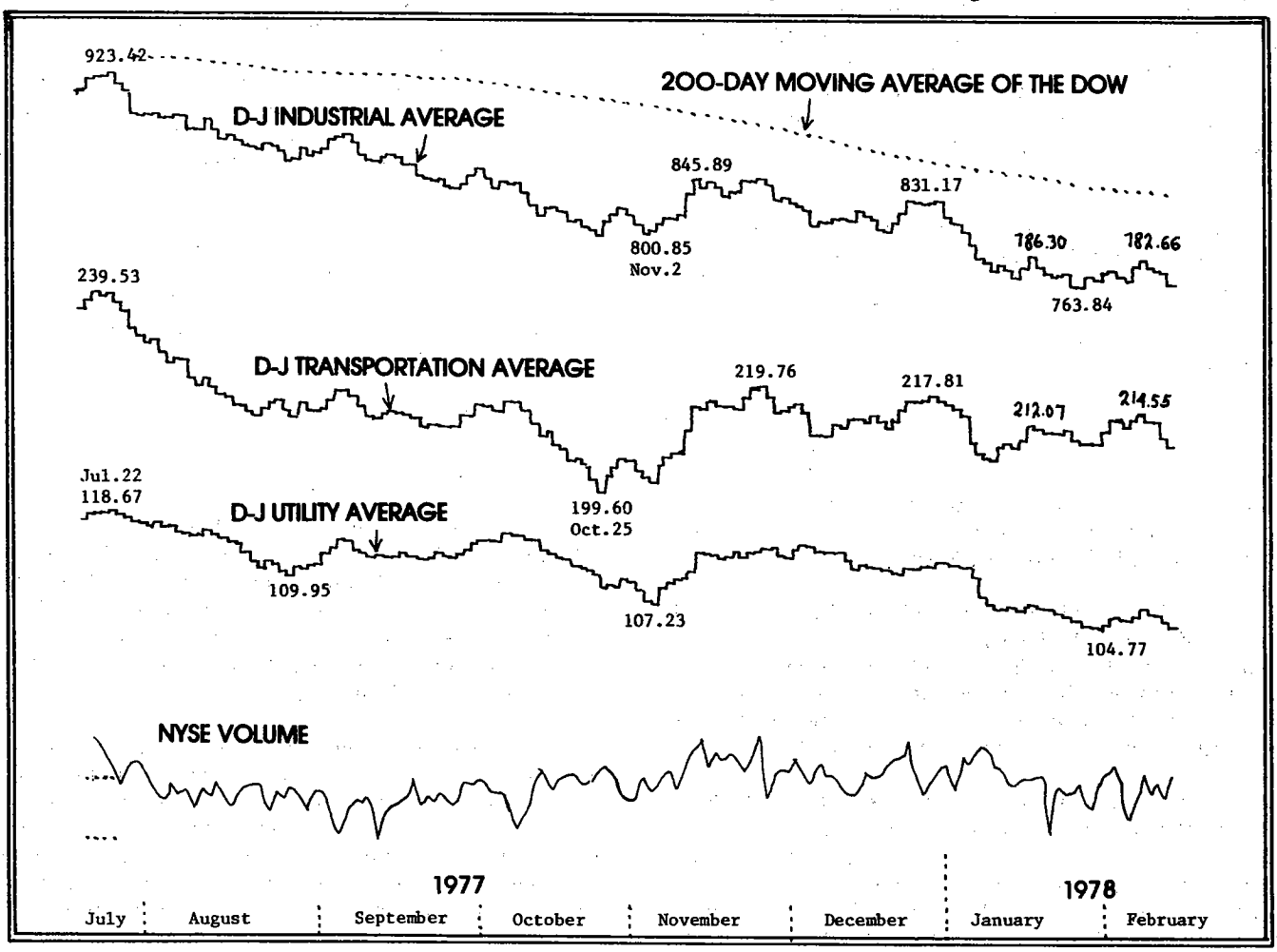
THE MARKET: I never could make any money in the market in in-and-out- trading. One and two-month market pops never did anything for my bank account. So from my standpoint, the market continues to present an "unappetizing" picture. I say this, not because we couldn't have a rally, but because I don't see a rally going anywhere important on the upside. From the standpoint of the optimists (and they do have some points), the picture remains about as I outlined it in the last report. The Transportation Average (see below) has not violated its Oct. 25 low of 199.60. Furthermore, the advance-decline ratio (not shown) has not broken below its own October low. These are two of the mainstays which the bulls have hung their hopes on.

From the pessimistic side, I noted in the last Letter that despite near-term Transport strength, the Industrials have refused to confirm the latest Transport rally (a confirmation would have entailed an Industrial bettering of its little January 18 peak of 786.30). As you can see below, the Dow again "went flat" as Transports rallied, and the most recent Dow peak (782.66) was 4 points under the January 18 peak. That failure brought in some weakness–how much weakness remains to be seen. By the same token, I warned in the last report that the Utility Average was telling us a bearish story–of the long-term variety. Note below that since the January 31 low of 104.77 the Utility Average has had about as much life in it as a 15 year-old Georgia bloodhound. But every dog has its day, so let's watch and see whether that 104.77 point is going to hold–or not. That will tell us a bit more about the unfolding picture.

THE PICTURE: I just received one of those "smartsy-insider" stock market advisories that tells us all about what "they" (i.e., "the powers") are doing. This kind of nonsense always makes me see red. These advisories infuriate me because they (1) imply that there is a grand conspiracy running the markets, and (2) imply that the advisory knows exactly what this mysterious group of "market-movers" is going to do next.

"They," we are told, "ran the market up to Dow 1000." Then they distributed and "knocked the Dow down to 1974's 577." Next, "the powers sent the Dow up to 1000 again, up to the 1976 high." My response to this kind of analysis can be expressed in a single word, "rubbish." I think I have enough big-money subscribers, enough institutional subscribers, enough



pension fund and bank and mutual fund managers to know about how these gentlemen think. There isn't a week that I don't get a letter or phone call from one or more of these supposed "powers," and if you think they get together and plot the future of the market, forget it. They sweat, brothers and sisters, as you and I do.

There isn't enough money in the United Arab Republics and the US Treasury to manipulate the stock market through a major primary swing. You can manipulate a stock, perhaps even a stock group, you can manipulate the *daily* action and conceivably even the secondary action. But a major primary movement in the market requires the concerted buying or selling of the best minds and wealthiest pocketbooks in the world. And that kind of buying (or selling) just doesn't happen through a conspiracy!

I write these Letters for businessmen who believe that the stock market is the best available forecaster of coming events in business, and I write these reports for investors who (like myself) are trying to handle their assets as intelligently as possible. To my mind, the stock markets and the bond markets have, over the years, produced by far the best record of forecasting the future. "When coming events cast their shadows before," wrote William P. Hamilton, "those shadows fall on the New York Stock Exchange." I believe that, I really do.

I talk a lot about the D-J Industrial Average because that Average is the most widely followed in the world, and it has a long history, stretching back to before the turn of the century. The Average is made up of 30 corporate giants whose assets comprise about 20% of the entire value of the NYSE. These stocks manufacture and distribute the kind of products that count, the products that make a boom or (through lack of sales) produce a depression. The Dow is obviously not "the whole market," but anyone who spends his time trying to prove that the "Dow doesn't mean a thing," is a fool, plain and simple.

To my mind, one of the most valuable over-views of the market is contained in the 50% Principle, a Principle I have written about many times. The 50% Principle states that what the price movement (I use the Dow) does at the halfway or 50% level of the preceding major advance or decline is very important. For instance, following a major advance, if the ensuing correction can hold above the 50% level (of the preceding advance), then the situation remains bullish, and in due time the price movement will test or better the old high. On the other hand, if the correction breaks below the 50% level of the preceding major advance, the implication is that the primary trend has turned down. In that case, the price movement will ultimately test the area of the lows from which the entire rise began.

As a rule, the longer and more extended the advance or decline, the more valid the 50% Principle. Many investors and traders attempt to apply the Principle to rallies or declines of a few weeks or months, and this is not a trustworthy practice. But on movements of a few years or more, the 50% Principle becomes very important. I will illustrate that statement as follows.

A great primary bull market began in June 1949, at 161.60 on the Dow. That bull market continued in force for 17 years. Despite the bull market's end in 1966, a process of massive Federally inspired inflation sent the Dow to an all-time peak of 1051.70 on January 3, 1973. That entire rise from 161.60 to 1051.70 was 890.10 Dow points. Thus, the halfway or 50% level of the rise was 606.65. The Dow turned down in January, 1973, and by late 1974 it had smashed below the 606.65 level, thereby breaking the critical halfway point of the entire Dow advance since 1949. I was most interested in that breaking of the 606.65 level, and I wrote about it at the time. After all, the Dow could have halted its 1974 decline at 610 or 650, why did it choose to smash down to 577.60, thereby violating the 606.65 50% level?

A mini bull market began at the late-1974 lows, and it carried the Dow back above the halfway level of the entire 1973-74 decline. The bettering of the 1973-74 halfway level (814.65) implied that the Dow would try for the old high again. By September, 1976, the Dow had reached 1014.79, or within 37 points of the old high. Here the bull market aborted, faded, just died out before our eyes. And I wonder in retrospect, whether the 1974 breaking of 606.65 was telling us that the new bull market was fated to die early, that somehow the back of the entire upward thrust since World War II wasn't irreparably cracked when the Dow (in 1974) violated the halfway level of the whole rise since 1949.

Most recently, I drew subscribers' attentions to the halfway level of the 1974-76 rise, the rise from 577.60 to 1014.79. The halfway or 50% level of the latest Dow bull market advance was **796.19**. Watch that level, I wrote repeatedly during 1977. If the Dow can hold above 796.19 on any decline, it will be very constructive. If 796.19 is violated, it will have major bearish implications.

On January 6, 1978 the Dow closed at 793.49, thereby breaking the 50% level of the 1974-76 advance. The Dow has not been above the halfway level (796.19) since. I take a dim view of this action. I look at the whole picture this way. During the 1974 smash the Dow failed to hold above the 50% level of the entire rise from 1949 to 1973. Then last month the Dow broke 796.19, showing us that it failed to hold the 50% level of the rise from 1974 to 1976. The breaking of the 1949-73 50% level was a very long-term warning, but I "hoped" somehow that a new bull market could repair (or ignore) the damage. Now the 796.19 has fallen.

I believe something has cracked the "spine" of the Dow and therefore of 30 of the largest corporations in the nation. There is some kind of sickness, a rot that has set into the American situation, and the "broken Dow" is telling me that. The bull market that began in late-1974 was shattered (under the 50% Principle) in a little over three years.

SURVIVING: I've mentioned this before, but I want to discuss it again. I want to discuss it because it's illustrative of what's happening to this nation. The new Department of Energy is budgeted for $10 billion and 20,000 employees. This amount of money is larger than the total profits of the seven largest US oil companies, (and many politicians have termed the oil profits "obscene"). This $10 billion is also greater than total annual petroleum industry expenditures for production and exploration of all domestic oil and natural gas.

Why do I make these comparisons? Because the Government is becoming an engine of destruction for the capitalist (call it "free enterprise" if you like) system. When I was a kid, I really used to think in terms of "my Government," I honestly did. Now I think in terms of *"the* Government," as if the Government and everyone connected with it are somehow foreigners–and worse, foreigners who are dedicated to making life costly, difficult and unpleasant for me.

The latest figures put the total Federal debt at $722 billion. The Treasury is about to ask Congress to raise the US debt ceiling from the current $752 billion to $781 billion on September 30, 1978, and then to $871 billion on the following September 30, 1979. This huge boost is to take care of two back-to-back deficits of over $60 billion each. In this way, the US continues to build the greatest debt structure in the history of the world. So huge is the edifice, so monumental are the monthly and yearly additions to the debt totals, that the average citizen has become immune to the figures.

This "immunity" is dangerous. I view it as a numbing process, much as men in combat gradually grow numb to death and destruction, or in the same way as a morgue attendant grows immune to the corpses which are brought in day after day. But wars end, and each days corpses at the morgue are examined, catalogued and removed. Yet the debt grows and grows, and there is no end to it. It is never, ever reduced!

Thus, I see the current philosophy and attitude towards debt as not only immoral, but I see the attitude as the greatest single enemy to freedom in the nation today. On every side we see the results of the growing debt load. The Government finances the debt by monetizing it, and this process undermines mens' desire to work in an honest way. "Why save," the worker asks, "since whatever I save is systematically destroyed by inflation." Others say, "Why should I be honest, when the Government is not honest, and the men who run the Government are not honest. Nor is the money that I work for honest, since it buys less and less with each passing month. The Government is stealing from me, so I'll just steal a little back." And on it goes.

Just as bad, the average man sees that his Government and his leaders openly embrace debt as a means of running the nation. So Joe America decides that his own life should be run the same way. What's good for his Government is good enough for him. Consequently, he goes the debt route and before long the banks and savings & loans and finance companies own everything he uses (or should we say everything he borrows); they own his home, his appliances, his car, his furniture, his vacations, his soul.

What does all this mean to you and me? Since the debt is mounting ever higher, it means, first of all, that we have to plan on successive bouts of tight money, with each new onslaught bringing in higher interest rates than last time. Second, it means that there really are no so-called "long term investments." Why is that? It's because the Government, in its endless search for new money, makes it progressively more difficult (via taxes) to find safe and profitable investments. And finally, the debt mountain means that we have to plan on an ultimate era of either rampant inflation and collapse–or simply deflation and collapse.

Over the past year I have received an increasing number of letters having to do with observations, questions or worries about the entire debt process and the results of that process. The questions have not been lost on me, since I have to survive in the same world as my subscribers do. Therefore, I have spent endless hours thinking out this whole situation. I offer some of my thoughts below.

(1) Everything I see and hear suggests that the US is giving highest priority to employment and the current "happiness" of voters. This means that the Government will **follow the inflation path** as long as it works. And the US Government has the capability of a huge amount of inflation.

(2) Consequently, I feel we should plan on an ultimate of monetary inflation and then collapse. I add collapse because there is no soft landing following a period of intense inflation. I use the old comparison of a car going around the turn at 100 mph–you just can't "carefully step" on the brakes. The momentum does not allow it.

(3) Increasing debt and inflation places a great burden on the investor. As a matter of fact, rising inflation turns every investor into a **survivor**, a man (or woman) who simply wants to preserve the purchasing power of his/her assets. Increasing inflation means a rising floor under interest rates (higher and higher low points), and it means INSTABILITY throughout the investment field. This is why the "long term investment" is now a dinosaur.

All the above militate, to my mind, towards **diversification** as the major vehicle for survival. In a period of rising inflation, everyone loses, and the "winner" is the man who loses least. As I see it, the following items constitute intelligent items for diversification.

(1) Gold, in coin form or bullion form or both. Gold will tend to rise with inflation, but it will also tend to rise in a period of economic chaos or world emergency. Gold is real money, it is tangible. True, gold can be taxed (on new purchases) or it can be confiscated, but those are risks one has to take.

(2) Real estate in the form of your home can be a legitimate item for diversification. Large real estate holdings tend to be illiquid, and they are suitable mainly for people who are actually in the real estate business, people who are thoroughly familiar with the markets and who know the risks involved. If and when the real estate market finally crashes, one can withstand the loss of paper profits on his home, but he can not withstand a collapse in the value of large real estate holdings (which are probably heavily margined). The same argument goes for land, which is also highly illiquid in down-markets.

(3) Select postage stamps constitute an excellent category for survival. Stamps represent the category which I personally prefer out of the entire "collectibles" spectrum. I prefer stamps because they have a huge and active market, they can be kept in a small space, they can be priced fairly accurately, they have a history of price movement which is subject to increasing research (catalogues, charts, etc.). Last, but certainly not least, stamp collecting is encouraged by almost every government in the civilized world. For these reasons, stamps are becoming almost an alternate form of money. The single category which I prefer is better US 19th century stamps, but regardless of any category much study and the services of an expert are usually needed.

(4) There are many other categories of collectibles such as coins, guns, antiques, art, porcelains, etc., and here the operative word is expertise. If you know what you are doing, you can collect Brazilian butterflies and garner profits, but the stamp (and coin) markets are the biggest and most liquid.

(5) Pension money (corporate or private) deserves top mention here, since this is a category which enjoys deferred taxation. Thus pension money can *build* (compound) in the same manner that private money could 100 years ago. Where possible, everyone would have a pension plan and use it as part of a diversification process. I cannot stress this strongly enough.

(6) I lump all cash, stocks, bonds in the "other assets" category, the category which requires INVESTMENT TIMING. I don't

care whether you have 20% or 80% of your money in stocks, bonds, municipal bonds, Treasury bills, Swiss francs, long-term bonds; all of these (in my opinion) now come under the category of **timing vehicles**. These are the assets which are *relatively liquid*, they can be moved from one category to the next rapidly, and here I want to make a stipulation.

In this timing category, I am convinced that we should NOW place money only in those vehicles which possess utmost **liquidity**. Within the timing category, I consider it **forbidden** (stupid, incorrect) to invest in anything in which one can become "locked in." Events are moving rapidly these days, and that portion of our assets which is not in collectibles or gold or real estate (a home) should be extremely liquid–ready to move. This is the reason why I do not advocate purchase of individual municipal bonds (I advocated no-load muni funds instead), this is why I do not like the over-the-counter stock category, this is the reason I do not like many convertible bonds and many lesser-grade bonds. When you want to sell these items, there is often no real market to speak of. I like items where you can sell almost any quantity at almost any time at very little price concession. That is real liquidity.

At present, I can not tell each and every subscriber what I think he should be doing and how his assets should be sub-divided. As a good mix at this time, I personally feel the following offer advantages: 15% of assets in gold, 10% of assets in your home, 10 to 15% of assets in stamps or some other collectible, and the remaining 60% to 65% (the liquid part of your assets) in Treasury bills. Where you have some special item such as your own business or tax shelters(such as oil and gas), fine. I assume you know what you are doing, and I can't help you in either of those areas.

Question: Russell, would you try to characterize the big picture over the coming three to five years for me. Maybe this will help me with my thinking.

Answer: All right, this is what I think the big picture is. I believe we have seen a giant cycle of both price inflation (cost of goods) and monetary inflation ever since World War II, and actually since 1932 if you want to be totally honest about it. I think the cycle of price inflation is now in the process of rolling over and topping out. Thus, some costs and prices are still rising, but others have passed their peak. I predict that more and more categories of "things" will pass their ultimate price peak in the next few years.

The Government will fight all deflationary trends with monetary inflation, the same process they have used for decades. But this will not halt the contraction in prices. The fact is that debt all across the private sector is now almost unsustainable. Furthermore, American citizens and businesses can't print themselves out of debt, only the Government can do that. Thus, I see a very difficult situation in which more and more Federal deficits exert less and less effect on the economy.

Let's face it, the stock market has been liquidating itself since late-1976 and even before that. Wall Street itself has been contracting as thousands of personnel have left their jobs. Wall Street is telling us the story, but few want to listen. The nation will only realize what's happening when "the Wall Street disease" becomes the national disease. And it will.

Thus, over the *longer* term (maybe the next decade) I see a **great deflation** as almost half a century of debt is in the process of liquidation. "Ghastly," you say, "a horrible thought." But here I disagree. Many nations have survived deflation (including this one), but no nation in history has survived a steady inflation. Massive deflation wipes out many values, but massive inflation wipes out all values! Remember, this long-term deflation will be interspersed with many mini-bull markets such as 1974-76; it will not be a steady process. Thus there will be many great investing opportunities.

Secondly, I do not see a war ahead. I say this based strictly on my own intuition. I just do not see any kind of *major* war over the foreseeable future. Thus, in the absence of war and with long-term inflation turning to deflation, I see great difficulties ahead for the US, but we will survive. And, believe it or not, I call that an optimistic statement in view of what's happened over the last quarter century.

In line with the above, I note that Paul Samuelson (*Newsweek*, Feb. 18), an economist who I have always considered a new deal inflationist, concedes that investing over recent years has been very difficult. He also bows to timing and expertise, and I thought this excerpt was interesting enough to include.

> Only two kinds of assets held their value. The social-security payments that most of us have coming when we reach our 60s and 70s have been escalated in accordance with the consumer price index. Despite the periodic rumors of insolvency that get spread, families' first line of defense in the form of social security rests securely on the growing earning capacity of the nation, and this provides assurance of a basic minimum for the future.
>
> Also, the values of people's homes continued to grow in most parts of the country. Building costs continue to advance remorselessly, and older homes are buoyed up by the rising prices that have to be charged for new dwellings. Indeed, many a young family has found it necessary to buy a more expensive home than it can afford and only the rise in housing prices has bailed it out from its frenzied overcommitments.
>
> Given the disappointing performance turned in by traditional modes of investment in recent years, people are naturally tempted by some less conventional alternatives. I am frequently asked: "Can one prudently do better buying diamonds? Oriental rugs? Paintings, sculptures, prints or antiques? Stamps? Farm land, citrus groves, tax-sheltered oil deals? Suncountry condominiums, mountain or shore properties? Gold bars, coins (for example, U.S. eagles, French napoleons, South African krugerrands), gold-mining shares?
>
> "Can one recoup, or at least preserve real value of principal, by buying call options on IBM or GM? Or by buying put options? Or by selling either of such options? Are the odds favorable in soybean futures, pork bellies, silver or copper? Can one provide for old-age needs by taking judicious flyers in foreign-exchange futures (the mark, yen, pound, Swiss franc)?"
>
> Careful investigation shows that none of these gambits pays off for the average intelligent amateur. Each new line begins favorably for those who happen to be early birds. And special knowledge and diligence tend to be rewarded as in any form of activity.
>
> Actually, in well-organized competitive markets there is no place to hide when the winds of liquidation are blowing. You are naïve to be taken in by rumors of neighbors who are making killings in London commodity options or in private-mint commemorative issues of coins.

CORRELATIONS: There has been much talk about the "January barometer," and I mentioned this in the last Letter. Correlations always interest me, but the trick is to find market tools that have very high correlations (in other words, tools that tend to be accurate).

There have been 44 years and therefore 44 Januarys since 1932. In those 44 instances, the first five days "predicted" the outcome for the full year on 33 instances for an accuracy grade of 75%.

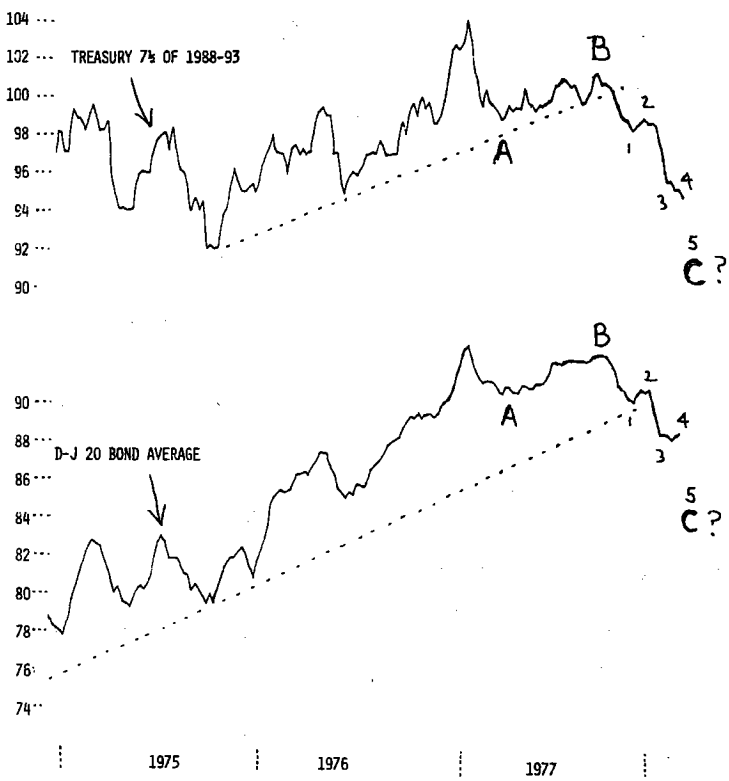
Now let's take the full month of January. The direction of the month of January has predicted the market direction for the full year on 34 occasions. This is an accuracy rate of 77%, slightly better than the accuracy of just the first five days of January.

Alan Shaw of Smith Barney, Harris Upham has done some very interesting work in this area, and he has come up with the following excellent correlation. His basis is as follows: (1) are the first five days up (or down), (2) is the full month of January up (or down), (3) is the last day of January above (or below) the 5th

day of January. Since 1960, where all three criteria were in gear, Shaw's indicator has been 100% accurate. Going back to 1932, there were 23 instances in which all three of Shaw's criteria were met. The Shaw criteria predicted the outcome for the full year on 21 instances for an accuracy rating of 91%.

Using the broad Standard & Poor's 500 Composite, the 1978 criteria are as follows. The last day of December, 1977 saw the 500 at 95.10. The 5th day of January, 1978 saw the 500 down to 92.74. The final day of January, 1978 saw the 500 at 89.25. Thus, all three of Shaw's criteria for a down-year have been met, placing the odds for 1978 being a down-year at 91%.

Speaking of correlations, Dick Young of Hoenig & Strock (140 Federal St., Boston, Mass) has come up with a few remarkable facts. The January 6, 1978 boost of the discount rate to 6.5% constitutes only the third rise to 6.5% since the Fed was created. Furthermore, we are now in the eighth major upswing in interest rates since 1937. Young notes the **peak** in each upswing as follows: January 16, 1953 peak was 2%. The August 23, 1957 peak was 3.5%. The September 11, 1959 peak was 4%. The December 6, 1965 peak was 4.5%. The April 4, 1969 peak was 6%. The April 16, 1971 peak was 5%. The April 25, 1974 peak was 8%. The 1978 (or 1979) peak was . . .?



BONDS-MONEY: As a rule, a "good bond market" will materialize **before** a good stock market. As of this writing, we haven't got that good bond-money market yet. I don't know whether it's the Administration's pathetic fumbling with the weak dollar, I don't know whether it's the specter of massive Treasury financing to come in second-half 1978, I don't know whether it's the thought of slowing business and tax short-falls to the Treasury (with the need of even more Treasury financing), but the money markets are still sloppy and weak.

I include my weekly chart of two segments of the bond market, the representative Treasury 7½'s of 1988 and the broad D-J 20 Bond Average. Both items are saying the same thing, namely, that the bond markets have been (and still are) weak. The new lows in both the bond averages and the D-J Utility Average constitute a negative climate for the stock market as well, as documented in Letter 720, page 3.

I count this as an Elliott bear market move for bonds, with an A-B-C decline in progress. A(down) and B(up) are completed, and the C(down) leg is in process. C should be divided into 5 smaller legs, and if I am correct we are about to see the final leg 5 (down) to complete this bear market (or at least this phase of the bear market). Subscribers can see why I've been saying "Out of bonds and into T-bills" for so many months. And the worst (for bonds) could still lie ahead.

NOTES: The sun is out today, after almost two months of fairly steady rain (a nice word for flooding). At any rate, Southern California never does anything in a modest way. Prior to the rains, we had a drought, and I don't think we got more than a one-day sprinkle the previous year. Mull that over, pilgrim, before you pack up and move your roots out here to heaven-on-earth land!

I receive many letters each day, and I simply cannot answer all of them. If I did, I wouldn't be able to write these reports. Occasionally, I get a funny letter such as this one received today from Chicago: *"I have only been a subscriber since August and I don't know if your letters and answers are 'real' or just the vehicle you use to explain your positions. I have enjoyed the letters immensely and have profited from them in the last six months.*

"My reason for writing is that I have never received a bullish letter and would love to see how one looks. It appears that I may have some wait so I was wondering if I could be sent one from the archives." Well, that's fair enough, so I sent this subscriber a few early 1975 reports, and I'll be bullish again, just you wait.

A PAUSE AROUND MARCH 5? At the tender age of 53, I'm going to have another baby (I already have three girls aged 14, 19 and 21 by a previous marriage). Maybe the market has driven me mad, maybe it's the San Diego climate, but the deed is done. And it's to be a boy. We know that via the amazing modern medical process of amniocentesis, whereby a sample of amniotic fluid is removed from the mother, the cells are cultured, the chromosomes are counted, and from this the sex is determined. His name will be Ryan (my wife, Paula, has Irish in her). Ryan's godfather is going to be one of my oldest and best buddies, Harry Schultz. Harry may be an internationally known economist and market expert, but around here the song is, "We're just wild about Harry."

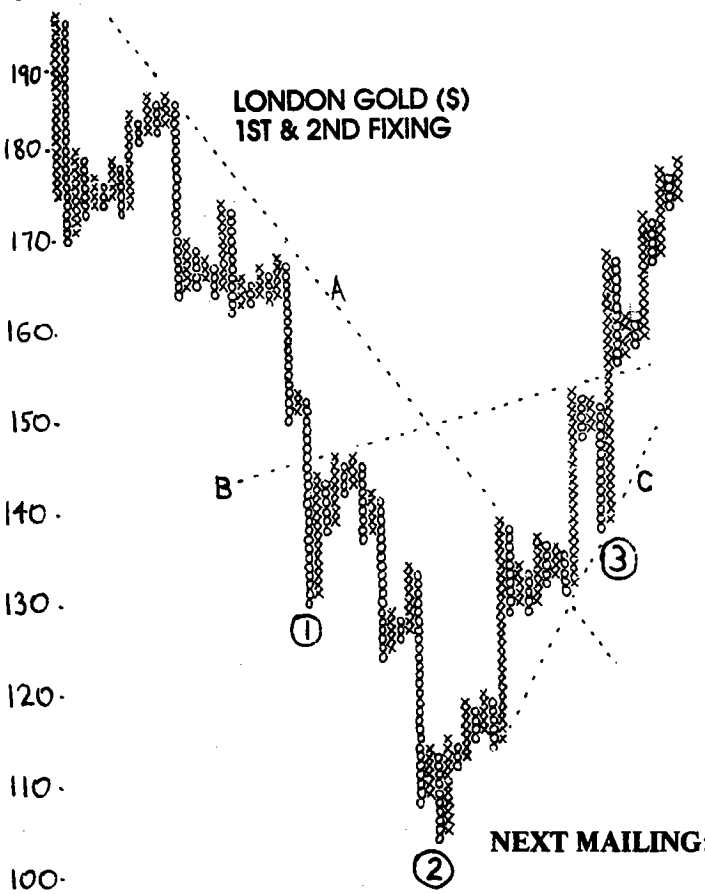
One more thing: a rather famous 81-year old San Diego astrologist told me that (1) it was going to be a boy, and (2) he would be born on March 5. I didn't tell her that I already knew the sex, so I'm rather fascinated to see whether she'll get the birth date right too. So if there's a pause in the mailing around March 5, you'll know what's happening–I'll be dashing around the delivery room!

GOLD: I've lost track of the various devaluations that have taken place over the past few years, but I don't think a week goes by when some nation (Iceland, Norway, Sweden, you name it) doesn't devalue. Since all paper currency is floating these days, a "devaluation" in 1978 means that a nation officially raises the ratio between its currency and another (stronger) currency. But this is just semantics, since the stronger currency is also floating. The fact that nobody (nobody but the "gold bugs") wants to face is that all currencies are really moving

up or down in terms of gold. Of late, however, the movement of all currencies has been **down** against gold. Even the lofty Swiss franc has been sliding down against gold during 1977-78.

When you buy gold you are losing the interest on your money, so that gold must appreciate by at least 6% per year if you are to stand still with your investment (since you can get 6% or more in T-bills). This is a definite consideration; for instance, over three years you must see an 18% rise in the gold price to "beat" an investment in T-bills (of course, it's not quite that bad since you must pay Federal taxes on the T-bill interest).

The same argument is used in favor of gold stocks over actual gold or gold coins. On this page (bottom) I include my chart of the ratio of gold price divided by the price of Barron's Gold Average (weekly). Since Barron's Average is very heavily weighted in favor of ASA, we are looking to a large extent at the relative performance of the S.African gold shares against bullion. The picture is clear enough. The market, since mid-1974, has preferred bullion to the gold shares. And who am I to argue with the market? That's the reason I've been recommending gold, not the shares.



Today gold moved to a new 33-month high of 178.60, and this is seen in the point & figure chart below. This massive structure has been thrusting upward for many months, and as you can see each successive upthrust has been nicely corrected or consolidated. Thus, gold has retained its technical strength as it moves from high to new high. The chart shows nearest-term support at 173 and further support at 167. Gold has been fluctuating within a rising channel on my arithmetic chart (not shown) with the upper reaches of the channel at least allowing for a move to over 200. At any rate, the technical action of gold continues bullish, and the frequent little "scary" corrections have kept the public pretty much out of the picture. If you don't believe that, ask your local coins dealer whether gold coin sales have matched the halcyon days of 1973 or '74. Ultimately, however, the public will arrive on the scene.

I've received many requests regarding "How do I buy gold?" Simple, through your broker (in bullion form) or for coins through a reputable local coin dealer. Jim Cooke of *Investment Rarities, Inc.*, One Appletree Square, Minneapolis, Minn. 55420 puts out an attractive and informative "Silver and Gold Investment Kit" which, he advises me, will be sent free to my interested subscribers. Cooke also handles coins (I get nothing in the form of commissions or anything else if you decide to deal with Cooke).

LATE NOTES: Yesterday the D-J 65 Stock Average sank to a new bear market low. This rather volatile Average (made up of all the D-J Industrial, Transport and Utility stocks) often leads the rest of the major composites. On the same day the D-J Utility Average broke below its recent 104.77 low (see page 1) to close at a new bear market low. My Primary Trend Index (PTI) confirmed by closing at a new bear market low of 720 (see chart, Letter 720, page 2). These three bear market lows are ominous, and my guess is that they will be followed by new lows in the other major indicators before too long. All three of the indicators mentioned above tend to lead the market.

At the same time, the Government bond market has turned very weak with the Treasury 8's of 1996 hitting a new low of 97 12/32nd's bid, at which level they yield a fat 8.23%. Thus, the entire bond market could be getting ready to follow the Governments to new lows on this move.

I am now watching the 199.60 bear market low (October) on the Transportation Average, and the October low (not too far away) on the A-D ratio. If these two lows are violated, I would think we will probably be entering the liquidation phase for this segment of the bear market. So far, as I have been saying all along, COMPLACENCY reigns. When a worthwhile bottom finally arrives, I rather believe FEAR will take the place of complacency.

NEXT MAILING: March 1st